Denmark's Joint Implementation/Clean Development Mechanism (JI/CDM) programme

Background

Denmark's public JI/CDM programme supports climate-related projects in Eastern Europe and developing countries. Denmark initiated its JI programme in 2003 by redefining and building upon the Danish support programme for environmental projects in Eastern Europe, which was phased out as countries became members of the EU. The JI programme was administrated by the Danish Environmental Protection Agency. The CDM programme was initiated in 2004 with a focus on capacity building of national CDM institutions as well as support for project development. A specific budget was allocated for entering into contractual agreements for purchasing CDM credits. As with the JI programme, the new CDM programme built on the environmental support programme for developing countries with a focus on South-East Asia, and was administrated by the Ministry of Foreign Affairs. Since 2008, both programmes have been administered by the Danish Energy Agency.

JI/CDM Strategy

The Cost Efficient Climate Strategy was adopted by the Danish parliament in 2003, setting out the overall guidelines for prioritizing domestic versus international action to meet the Danish Kyoto target of reducing emissions in 2012 to 21 per cent below their level in 1990. Initially, in 2003, funds were allocated for Government procurement of JI credits, while CDM was included from 2004 and onwards.

The quantity of credits to be purchased was set out in the national Allocation Plan defining the credit limits both for ETS operators and the Danish state based on the Commissions interpretation of the principle of supplementarity. Following the allocation plan, a common strategy for implementing the JI/CDM programme was published in 2007 and relates to the first Kyoto commitment period 2008-12.

The Danish JI/ CDM programme is based on the overall aim to make a cost-efficient contribution to fulfillment of Denmark's Kyoto obligations, through acquisition of GHG emission reductions from JI/CDM projects, combined with four strategic goals:

- To contribute to global climate protection through sustainable climate-related projects in Eastern Europe and developing countries
- To promote sustainable development in developing countries and Eastern Europe via transfer of technology and capital, social development and capacity building
- To compensate for CO_2 emissions related to COP-15 and government flights
- To support Danish industry in the form of facilitating JI/CDM credit purchases by companies covered by the EU ETS, and to promote the export of Danish technology and know-how to JI/CDM projects.

The JI/CDM programme has been based on the government's participation early on during project development through a close cooperation with project participants, local and national authorities, etc. The Danish government has refrained from purchasing secondary credits in order to ensure compliance with sustainability criteria for carbon credits and inclusion of Corporate Social Responsibility criteria in the carbon contracts.

Sustainability

An important aspect of the Danish JI/CDM programme is to ensure long term environmental, social and financial benefits for communities hosting the projects. From the initial project screening to the actual project implementation the programme aims at providing all-round solutions in the Danish tradition of social responsibility. The JI/CDM projects in the Government's portfolio often create positive spin-offs, such as reducing air pollution, new jobs, better land use, improved water quality, improved health and safety and reliable, cost-effective energy supply. When engaging in projects the Danish Energy Agency prioritises the long-term sustainability of JI/CDM projects, and most activities are planned to last beyond the JI/CDM lifespan. In practice, this means that apart from the sales of CO_2 credits, additional forms of income are built into most of the projects.

About the portfolio

Sourcing of new projects has changed significantly during the last 1-2 years, as we are closing in on 2012. Until recently, the DEA predominantly developed its own projects using consultants for the PDD work and based on the Danish Government's extensive network in a number of host countries, as well as proposals received through tenders and an open door policy. Today almost all new projects are acquired through brokers and intermediaries who offer projects that have been developed to a more advanced stage or by bidding on projects that are on offer in the market. The reason for this shift is obvious: there is no longer time to develop new projects from scratch if credits should be issued before 2012.

However, it is still a prerequisite for DEA to be able to track the projects and perform own due diligence before contract signing, checking that they are in compliance with important portfolio criteria:

- Projects must be consistent with UNFCCC guidelines, modalities and procedures and be consistent with relevant national criteria and laws of the host country
- Projects must be eligible under the EU ETS, which with one exception has excluded forestry projects from the portfolio
- Priority is given to projects in Asia, Africa and Eastern Europe
- Preference is given to renewable energy and energy efficiency projects but projects are not limited to these sectors
- Projects must make use of proven technology. The use of Danish technology is not compulsory, but where Danish equipment or know-how can make a cost-effective difference to a project, DEA will advise on its use
- Projects should meet standard viability criteria and adhere to the 10 principles of the UN Global Compact
- Payments for ERUs/CERs are predominantly made against delivery in the Danish registry, with up-front payment to a maximum of 50 per cent being possible on a case by case basis and against a bank guarantee from a bank acceptable to DEA
- Generally, DEA requires seniority on generated credits, the ERPAs include a sweeping clause, and DEA should have the option to buy any additional credits that may be generated from the projects
- Preference is given to projects that deliver above 100,000 pre-2012 credits

Also the DEA programme does not include HFC and large hydro. N_2O projects need to include a greening element demonstrating that the proceeds from sales of carbon credits are invested in environmental improvements at the industry. Also, DEA does not buy AAUs except if these are backed by one to one verifiable emissions reductions in the form of early credits from JI projects from which DEA also buys ERUs or in the stand-alone case of the New Zealand permanent forestry scheme.

The history of environmental support explains the geographical focus of the DEA programme, South-East Asia and Eastern Europe, which is atypical to the average global distribution of projects. So far the DEA has had no presence in Latin America, a comparatively low presence in India, but a number of projects in China and relatively many JI/European projects. This tendency is, however, changing as DEA is now buying mature projects from project developers; India is among the new focus areas. Almost 75 per cent of the JI /CDM projects in DEAs portfolio are from renewable energy projects, especially wind, biomass and biogas reflecting Danish technological expertise. Another 14 per cent of the projects are energy efficiency and fuel switch projects. It should be noted that when looking at contracted volumes instead of number of projects, only 68 per cent come from these three sectors, as the industrial gas projects are usually very large projects. This is also the case on a global scale.

Via the JI/CDM programme, the Danish state offsets all air-travelling of government employees. A credit amount corresponding to 130,000 tonnes CO_2 will be cancelled in order to compensate for the emissions from air-travelling in the period 2008-2011. Also the Danish state has decided to compensate the emissions caused by the transport of COP15 delegates. This is done through a project in the Bangladeshi brick sector where new efficient and environmentally friendly brick kilns are build, and thereby replacing the traditional and highly polluting technology. The project will cut 100,000 tonnes of CO_2 emissions each year and improve air quality in one of the world's most polluted cities. Also investments in funds

DEA participates in the Danish Carbon Fund (DCF) together with private investors. The fund is administrated by the World Bank. Funding criteria mitigate climate change and promote sustainable development. A share of 3.8 per cent of the funds capital is invested in the Community Development Carbon Fund (CDCF) with the aim of supporting carbon finance to projects in the poorer areas of the developing world that combine community development with emission reductions. Also the DEA participates in the two Nordic funds run by NEFCO: the Testing Ground Facility focusing on projects in Eastern Europe and Russia, and the NEFCO Carbon Fund with a broader geographical scope.

Organization and cooperation

The Danish Energy Agency is responsible for the implementation of the Danish credit programme under the authority of the Ministry of Climate and Energy. Currently, the programme employs team project managers in the Danish Energy Agency comprising economists, legal experts and engineers supplemented by local project co-ordinators normally based at the Danish embassies in the main host countries. This approach ensures that DEA has a day-to-day contact with project owners, relevant authorities, validators and other stakeholders. The vast majority of time and responsibilities are directly related to procurement (from initial project development and ERPA signing, through validation to monitoring, verification and issuance of credits); however the JI/CDM team in the DEA is also involved in policy development, service to the parliament, EU issues and international negotiations which have a direct link to the carbon market and other related issues.